Financial Statements of

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Year ended March 31, 2013

VIRTUS GROUP

Chartered Accountants & Business Advisors LLP

INDEPENDENT AUDITORS' REPORT

To: Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying financial statements of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation,** which comprise the statement of financial position as at March 31, 2013, the statements of operations, remeasurement gains, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation** as at March 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

May 21, 2013
Regina, Saskatchewan, Canada

Virtus Group LLP
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Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Financial Position

March 31, 2013 with comparative figures for 2012

	2013	2012 (note 9)
Financial assets:		
Cash	$ 7,535,056	$ 8,028,871
Accounts receivable	17,194	6,466
Due from Western Canada Lottery - Saskatchewan Division Inc.	10,628,966	11,126,752
Investments (note 3)	85,619,927	79,252,875
	103,801,143	98,414,964
Liabilities:		
Accounts payable	76,060	64,246
Due to Province of Saskatchewan - General Revenue Fund	280,928	44,409
Grants payable (note 4)	78,559,518	69,340,064
	78,916,506	69,448,719
Net financial assets	24,884,637	28,966,245
Net financial assets is comprised of:		
Restricted Trust Fund Balances	23,710,053	28,966,245
Accumulated remeasurement gains	1,174,584	-
	$ 24,884,637	$ 28,966,245

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Operations

Year ended March 31, 2013 with comparative figures for 2012

	Budget 2013 (note 8)	2013	2012 (note 9)
Transfer of net lottery profits from Western Canada Lottery - Saskatchewan Division Inc. (Schedule 2)	$ 62,523,870	$ 63,212,843	$ 60,644,168
Less contractual payments: (note 5)			
Federal Government payment	2,086,800	1,970,459	1,995,099
Former distributors	1,441,200	1,440,160	1,430,480
Payment to the Province of Saskatchewan - General Revenue Fund	7,500,000	7,428,428	7,143,609
Saskatchewan Association of Agricultural Societies and Exhibition Associations	310,000	310,000	310,000
	11,338,000	11,149,047	10,879,188
Lottery profits after contractual payments	51,185,870	52,063,796	49,764,980
Investment income	1,655,000	1,974,771	1,694,908
Less administration expenses (Schedule 3)	775,160	756,648	545,756
Funds available to provide grants	52,065,710	53,281,919	50,914,132
Less grants (Schedule 1)	51,906,500	58,538,111	47,911,667
Increase/(decrease) in restricted trust fund balances	159,210	(5,256,192)	3,002,465
Restricted trust fund balances, beginning of year	25,963,780	28,966,245	25,963,780
Restricted trust fund balances, end of year	$ 26,122,990	$ 23,710,053	$ 28,966,245

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Remeasurement Gains

Year ended March 31, 2013 with comparative figures for 2012

	2013 (note 9)
Accumulated remeasurement gains at beginning of year	$ 465,455
Unrealized gains attributable to:	
Bank stocks	162,386
Pooled funds	546,743
Remeasurement gains for the year	709,129
Accumulated remeasurement gains at end of year	$ 1,174,584

Statement of Cash Flows

Year ended March 31, 2013 with comparative figures for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
(Decrease)/increase in restricted trust fund balances	$ (5,256,192)	$ 3,002,465
Realized gain on sale of investments	(1,016,267)	(80,596)
Items not affected by cash:		
Unrealized loss on investments	1,174,584	351,648
Net change in non-cash working capital items:		
Accounts receivable	(10,728)	8,014
Due from Western Canada Lottery - Saskatchewan Division Inc.	497,786	(118,590)
Accounts payable	11,814	(19,400)
Due to Province of Saskatchewan - General Revenue Fund	236,519	(1,308,108)
Grants payable	9,219,454	4,716,436
	4,856,970	6,551,869
Investing activities:		
Purchase of investments	(78,480,743)	(18,269,868)
Proceeds from disposal of investments	73,129,958	11,905,697
	(5,350,785)	(6,364,171)
(Decrease)/increase in cash during the year	(493,815)	187,698
Cash, beginning of year	8,028,871	7,841,173
Cash, end of year	$ 7,535,056	$ 8,028,871

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

1. **Nature of operations:**

The Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation (the Trust) was established in 1974 and is continued pursuant to the *Interprovincial Lotteries Act 1984* and a Distribution Agreement between the Minister of Parks, Culture and Sport for the Province of Saskatchewan and Sask Sport Inc. Under the terms of the agreement, Sask Sport Inc. has been designated as the provincial marketing organization to sell Western Canada Lottery Corporation lottery tickets in Saskatchewan. Sask Sport Inc. has established the Western Canada Lottery - Saskatchewan Division Inc. to market, and Sask Sport Distributors Inc. to distribute these tickets on its behalf.

The agreement requires that the net lottery profits (detailed in Schedule 2) are transferred to the Trust and further that, after the payments described in note 5, and the expenses of operating the Trust have been paid, all remaining funds be allocated to sport, culture and recreation. The profits (allocated 50% to sport, 35% to culture and 15% to recreation) are restricted for granting to eligible organizations designated by the Minister of Parks, Culture and Sport for the Province of Saskatchewan. Each of these three sections contributes funds to the Saskatchewan Lotteries Community Grant Program in the same percentage as above; and to the Saskatchewan Lotteries Community Development Fund as follows: 40% by sport, 30% by culture and 30% by recreation.

The lottery agreement also requires Sask Sport Inc., as designated provincial marketing organization for lottery tickets, to pay out of the Trust directed payments as described in note 5.

2. **Significant accounting policies:**

The Trust uses generally accepted accounting principles as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). PSAB classifies the Trust as an "other government organization".

Basis of accounting and use of estimates:

The preparation of financial statements in accordance with the PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current earnings when identified.

Investments:

All equity investments are recorded at fair market value with unrealized gains and losses reported on the Statement of Remeasurement Gains. When such gains and losses become realized they will be reported in the statement of operations. Fixed income investments are recorded at amortized cost.

2. Significant accounting policies (continued):

Grant expense and contractual payments:

Grants to eligible organizations are recorded when approved by the Trust Committee or Sask Sport Inc. Board of Directors an all eligibility criteria are met. Contractual payments are recognized by the Trust as required by the lottery agreement.

Revenue recognition:

Lottery profits are recognized by the Trust in the period they are earned by the Western Canada Lottery – Saskatchewan Division Inc. Investment income is recognized in the period earned. Premiums and discounts on bond investments are amortized to income using the effective interest method.

3. Investments:

Investments at March 31 consist of:

	2013		2012	
	Carrying Amount	Book Value	Carrying Amount	Book Value
Government Bond	$ 3,857,330	$ 3,857,330	$ 3,750,686	$ 3,750,686
Guaranteed Investment Certificates	71,835,630	71,835,630	67,511,327	67,511,327
Bank Shares	3,618,226	2,990,385	2,990,385	2,990,385
CC&L Canadian Value & Equity Pooled Funds	6,308,741	5,761,998	5,000,477	4,616,970
	$85,619,927	$84,445,343	$79,252,875	$78,869,368

Government Bond matures June 1, 2014 (2012 – June 1, 2014) and has an effective interest rate of 2.9% (2012 - 2.9%). Guaranteed investment certificates mature between March 3, 2014 and January 30, 2017 (2012 – April 29, 2012 and March 14, 2016) and have effective interest rates ranging from 1.82% to 4.00% (2012 – 2.11% to 4.00%). Connor Clark and Lunn Canadian Value & Equity Funds are pooled funds consisting of managed equities with no specified rate of return or maturity. The bank shares have no specified rate of return or maturity. Market values are the values quoted by the applicable market on March 31.

4. Grants payable:

	2013	2012
Community Grant Programs	$ 19,667,106	$ 13,729,808
Culture	18,960,973	17,376,972
Recreation	6,911,770	6,599,136
Sport	33,019,669	31,634,148
	$ 78,559,518	$ 69,340,064

5. **Contractual payments:**

Under the terms of An Agreement for the Distribution of Funds, which expires on March 31, 2014, with the Minister of Parks, Culture and Sport for the Province of Saskatchewan, the Trust is required to make the following payments to:

- the Federal Government which, under an agreement dated September 23, 1979 with the Interprovincial Lottery Corporation, withdrew from the lottery field in exchange for $24,000,000 annually, in 1979 dollars. Saskatchewan's share of this payment, for the year ended March 31, 2013, was $1,970,459 (2012 - $1,995,099).
- Sask Sport Distributors Inc. to cover the distributor payments made to those volunteer non-profit organizations that previously acted as ticket distributors. This amounted to $1,440,160 (2012 - $1,430,480) during the current year. Of this amount, Sask Sport Inc., as a former ticket distributor, received $358,560 (2012 - $358,560) during the current year.
- the General Revenue Fund of the Province of Saskatchewan in the amount of 3.75% of net lottery ticket sales (2012 - 3.75% of net lottery ticket sales). During the current year $7,428,428 (2012 - $7,143,609) was paid.
- the Saskatchewan Association of Agricultural Societies and Exhibition Associations in the amount of $310,000 (2012 - $310,000) for the current year.

6. **Related party transactions:**

Sask Sport Inc., as a sport federation, received grants from the Trust of $2,981,639 (2012 - $2,759,791) during the current year, to provide programs and services to its member sport organizations. Sask Sport Inc. also received $9,998 (2012 - $9,764) as a fee for providing office equipment for use during the current year. Administrative expenses include direct expenses of the Fund as well as expenses allocated from Sask Sport Inc. based on Sask Sport Inc. resources used in the management and administration of the Fund.

The Administration Centers for Sport, Culture and Recreation (1989) Inc., a wholly owned subsidiary of Sask Sport Inc., provides office space and administrative services for non-profit sport, culture and recreation associations and received a grant from the Trust of $585,040 (2012 - $568,000) during the current year. In addition, the Trust paid to the Administration Centers for Sport, Culture and Recreation (1989) Inc. $49,551 (2012 - $46,964) for office space and services.

6. **Related party transactions (continued):**

These financial statements include transactions with related parties. The Trust is related to all Saskatchewan Crown agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Trust is related to non-Crown enterprises that the Government jointly controls or significantly influences.

These transactions are in the normal course of operations and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. Other related party transactions and amounts due to/from are disclosed separately in these financial statements.

7. **Financial instruments and risks:**

Fair value:

The recorded value of receivables and payables are measured at amortized cost, which approximates their fair value. Investments recorded at fair value are measured using inputs from one of three levels. Level 1 inputs are quoted prices readily available from an active market. Level 2 inputs are quoted prices included within Level 1 that are observable either directly or indirectly. Level 3 inputs are fair values not obtained from market data. The Trust fund measures government bonds, guaranteed investment certificates and pooled funds based on level 2 inputs. The Trust fund measures bank shares based on level 1 inputs.

Credit and interest rate risk:

The Trust is not subject to significant credit risk. The Trust may be subject to significant interest rate risk relative to certain investments described in Note 3. To mitigate the effects of interest rate changes the Trust applies investing policies that address portfolio mix, maturities, and liquidity.

Liquidity risk:

The Trust is not subject to significant liquidity risk as its primary receivable is with Saskatchewan Lotteries which is well capitalized and has a history of transferring funds in a timely manner. The Trust invests funds based on the timing of its grant obligations and continuously monitors this to ensure these obligations can be met. Its short term investments are highly liquid.

Price risk:

The Trust is subject to price risk through its investment in publicly traded securities and pooled funds. These instruments comprise 12% of the investment portfolio and are subject to price changes in the open market. The Trust does not use any derivative financial instruments to alter the effects of this risk.

8. **Budget:**

The original budget was approved by the Board of Sask Sport Inc. on February 9, 2012. Revisions to the budget were approved by the Board December 4, 2012.

9. **Accounting policy change:**

On April 1, 2012 the Trust adopted accounting standards of the Public Sector Accounting Board (PSAB): PS1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation, PS 3410 Government Transfers and PS 3450 Financial Instruments retroactively without restatement of prior periods. The adoption of PS 1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation and PS 3410 Government Transfers did not result in a change of the financial results for the Trust. The adoption of PS 3450 Financial Instruments resulted in unrealized gains of $465,455 recorded in the Statement of Remeasurement Gains.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 1 - Restricted Trust Fund Balances

Year ended March 31, 2013 with comparative figures for 2012

	Restricted trust fund balances, beginning of year	Allocation of funds available to provide grants	Grants approved - net of returns	Increase (decrease) in funds	Restricted trust fund balances, end of year
Community Development	$ 156,663	$ 4,783,000	$ (4,471,646)	$ 311,354	$ 468,017
Community Grant	7,013,097	5,072,800	(9,997,644)	(4,924,844)	2,088,253
Culture	7,355,845	15,438,292	(16,652,246)	(1,213,954)	6,141,891
Recreation	3,113,935	5,796,467	(5,697,869)	98,598	3,212,533
Sport	11,326,705	22,191,360	(21,718,706)	472,654	11,799,359
Total 2013	$ 28,966,245	$ 53,281,919	$ (58,538,111)	$ (5,256,192)	$ 23,710,053
Total 2012	$ 25,963,780	$ 50,914,132	$ (47,911,667)	$ 3,002,465	$ 28,966,245

Schedule 2 - Net Lottery Profits

Year ended March 31, 2013 with comparative figures for 2012

	Budget 2013 (note 8)	2013	2012
Lottery ticket sales	$ 200,000,000	$ 198,091,408	$ 190,496,230
Revenue and expense items paid by the Western Canada Lottery Corporation:			
Prizes	(103,009,000)	(102,579,597)	(98,943,711)
Administration and ticket printing	(17,600,800)	(16,470,318)	(15,717,345)
Retailer commissions	(11,712,000)	(11,305,780)	(10,795,421)
Federal and provincial taxes	(1,607,100)	(1,379,063)	(1,398,612)
Investment income	159,300	235,518	257,465
Lottery profits transferred from the Western Canada Lottery Corporation	66,230,400	66,592,168	63,898,606
Provincial interest and other income	229,000	229,743	222,756
Provincial distribution expenses (note 1)	(2,339,780)	(2,182,267)	(2,166,327)
Provincial marketing expenses (note 1)	(1,595,750)	(1,426,801)	(1,310,867)
Net lottery profits	$ 62,523,870	$ 63,212,843	$ 60,644,168

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 3 - Administration Expenses

Year ended March 31, 2013 with comparative figures for 2012

	Budget 2013 (note 8)	2013	2012
Salaries and benefits	$ 616,160	$ 608,347	$ 417,147
Rent	33,500	33,401	32,359
Professional fees	33,730	35,475	24,625
Office supplies	13,200	15,846	14,958
Committee meetings	27,960	22,822	12,276
Equipment expense	10,500	9,998	9,764
Printing	7,500	5,476	9,432
Telephone	6,850	6,772	6,158
Insurance	5,220	5,016	5,055
Postage	5,500	5,388	4,490
Travel and training	8,840	2,940	4,329
Goods and services tax	3,700	3,672	3,281
Repairs and maintenance	2,500	1,495	1,882
Total administration expenses	$ 775,160	$ 756,648	$ 545,756

See accompanying notes to financial statements.